

CONSUMER COUNSEL
FINANCIAL - COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 2005

JUNKERMIER, CLARK, CAMPANELLA, STEVENS, P.C.
Certified Public Accountants and Business Advisors

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the financial audit of the Montana Consumer Counsel for the two fiscal years ended June 30, 2005.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, PC under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Counsel's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor

05C-04a

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**ELECTED AND APPOINTED OFFICIALS
LEGISLATIVE CONSUMER COMMITTEE**

2004-2005

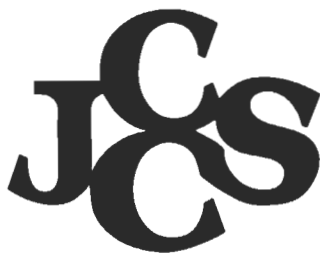
SENATORS

Debbie Shea (Served through 12/04)
Walt McNutt (Served through 12/04)
Ken Toole (Appointed 1/05)
Sam Kitzenberg (Appointed 1/05)

REPRESENTATIVES

Gary Matthews (Served through 12/04)
Alan Olson (Served through 12/04)
Walt McNutt (Appointed 3/05)
George Groesbeck (Appointed 3/05)

Consumer Counsel
Robert A. Nelson



**Junkermier • Clark
Campanella • Stevens • P.C.**

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INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of the Consumer Counsel for the fiscal years ended June 30, 2004 and 2005, as listed in the table of contents. These financial schedules are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial schedules based on our audits.

We conducted our audit in accordance with generally accepted auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Office of Consumer Counsel's financial schedules are prepared in accordance with state accounting policy, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Consumer Counsel for the fiscal years ended June 30, 2004 and 2005, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the information and use of the audit committee, management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2005 on our consideration of the Office of the Consumer Counsel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
September 28, 2005

Consumer Counsel
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FOR ALL FUNDS

	State Special Revenue Fund
FUND BALANCE: July 1, 2003	\$ 177,834
PROPERTY HELD IN TRUST: July 1, 2003	
ADDITIONS	
Budgeted Revenues & Transfers-In	
NonBudgeted Revenues & Transfers-In	152
Prior Year Revenues & Transfers-In Adjustments	
Cash Transfers In(Out)	
Direct Entries to Fund Balance	1,256,030
Additions to Property Held in Trust	
Total Additions	<u>1,256,182</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,297,083
NonBudgeted Expenditures & Transfers-Out	907
Prior Year Expenditures & Transfers-Out Adjustments	
Reductions in Property Held in Trust	
Total Reductions	<u>1,297,990</u>
FUND BALANCE: June 30, 2004	\$ 136,026
PROPERTY HELD IN TRUST: June 30, 2004	

See notes to the financial statements.

Consumer Counsel
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
FOR ALL FUNDS

	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Taxes	\$ 29	\$ 29
Charges for Services	82	82
Miscellaneous	41	41
Total Revenues & Transfers-In	<u>152</u>	<u>152</u>
Less: Nonbudgeted Revenues & Transfers-In	152	152
Prior Year Revenues & Transfers-In Adjustments	<u>0</u>	<u>0</u>
Actual Budgeted Revenues & Transfers-In	0	0
Estimated Revenues & Transfers-In	1,335,683	1,335,683
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,335,683)</u>	<u>\$ (1,335,683)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Taxes	\$ (1,335,683)	\$ (1,335,683)
Charges for Services		0
Miscellaneous		0
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,335,683)</u>	<u>\$ (1,335,683)</u>

See notes to the financial statements.

Consumer Counsel
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FOR ALL FUNDS

	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 334,541	\$ 334,541
Employee Benefits	76,347	76,347
Total	<u>410,888</u>	<u>410,888</u>
Operating Expenses		
Other Services	816,028	816,028
Supplies & Materials	9,920	9,920
Communications	5,171	5,171
Travel	25,590	25,590
Rent	14,746	14,746
Repair & Maintenance	585	585
Other Expenses	15,062	15,062
Total	<u>887,102</u>	<u>887,102</u>
Total Expenditures & Transfers-Out	<u>\$ 1,297,990</u>	<u>\$ 1,297,990</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 1,297,990	\$ 1,297,990
Total Expenditures & Transfers-Out	<u>1,297,990</u>	<u>1,297,990</u>
Less: Nonbudgeted Expenditures & Transfers-Out	907	907
Prior Year Expenditures & Transfers-Out Adjustments	<u>0</u>	<u>0</u>
Actual Budgeted Expenditures & Transfers-Out	1,297,083	1,297,083
Budget Authority	1,452,370	1,452,370
Unspent Budget Authority	<u>\$ 155,287</u>	<u>\$ 155,287</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 155,287	\$ 155,287
Unspent Budget Authority	<u>\$ 155,287</u>	<u>\$ 155,287</u>

See notes to the financial statements.

Consumer Counsel
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>136,026</u>
PROPERTY HELD IN TRUST: July 1, 2004	
ADDITIONS	
Budgeted Revenues & Transfers-In	
NonBudgeted Revenues & Transfers-In	429
Prior Year Revenues & Transfers-In Adjustments	
Cash Transfers In(Out)	
Direct Entries to Fund Balance	1,710,250
Additions to Property Held in Trust	
Total Additions	<u>1,710,679</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,061,549
NonBudgeted Expenditures & Transfers-Out	3,700
Prior Year Expenditures & Transfers-Out Adjustments	
Reductions in Property Held in Trust	
Total Reductions	<u>1,065,249</u>
FUND BALANCE: June 30, 2005	\$ <u>781,456</u>
PROPERTY HELD IN TRUST: June 30, 2005	

See notes to the financial statements.

Consumer Counsel
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
FOR ALL FUNDS

	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Taxes	\$ 56	\$ 56
Miscellaneous	373	373
Total Revenues & Transfers-In	<u>429</u>	<u>429</u>
Less: Nonbudgeted Revenues & Transfers-In	429	429
Prior Year Revenues & Transfers-In Adjustments	<u>0</u>	<u>0</u>
Actual Budgeted Revenues & Transfers-In	0	0
Estimated Revenues & Transfers-In	1,343,271	1,343,271
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,343,271)</u>	<u>\$ (1,343,271)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Taxes	\$ (1,343,271)	\$ (1,343,271)
Miscellaneous	<u>0</u>	<u>0</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,343,271)</u>	<u>\$ (1,343,271)</u>

See notes to the financial statements.

Consumer Counsel
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FOR ALL FUNDS

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
Personal Services		
Salaries	\$ 349,241	\$ 349,241
Employee Benefits	78,196	78,196
Total	<u>427,437</u>	<u>427,437</u>
Operating Expenses		
Other Services	570,696	570,696
Supplies & Materials	8,864	8,864
Communications	6,297	6,297
Travel	15,803	15,803
Rent	15,040	15,040
Repair & Maintenance	603	603
Other Expenses	20,509	20,509
Total	<u>637,812</u>	<u>637,812</u>
Total Expenditures & Transfers-Out	<u>\$ 1,065,249</u>	<u>\$ 1,065,249</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 1,065,249	\$ 1,065,249
Total Expenditures & Transfers-Out	<u>1,065,249</u>	<u>1,065,249</u>
Less: Nonbudgeted Expenditures & Transfers-Out	3,700	3,700
Prior Year Expenditures & Transfers-Out Adjustments	<u>0</u>	<u>0</u>
Actual Budgeted Expenditures & Transfers-Out	1,061,549	1,061,549
Budget Authority	1,476,104	1,476,104
Unspent Budget Authority	<u>\$ 414,555</u>	<u>\$ 414,555</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 414,555	\$ 414,555
Unspent Budget Authority	<u>\$ 414,555</u>	<u>\$ 414,555</u>

See notes to the financial statements.

OFFICE OF THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Office of the Consumer Counsel uses the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from generally accepted accounting principles in the following material respects:

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred. The following items are also considered valid obligations under state accounting policy:

If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

The anticipated cost of equipment is expensed in the fiscal year in which it is budgeted.

Goods ordered, but not received as of the end of the fiscal year may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Financial Schedule Presentation

The financial schedules were prepared from Statewide Accounting Budgeting and Human Resource System (SABHRS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the Consumer Counsel:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Consumer Counsel. Expenditures for termination pay are currently absorbed in the annual operational costs of the Counsel. At June 30, 2004 and 2005, the Counsel had liabilities for compensated absences of \$85,173 and \$107,570.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The Consumer Counsel's contribution to the plan for fiscal years 2004 and 2005 was \$23,069 and \$21,757 respectively.

OFFICE OF THE CONSUMER COUNSEL
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2005

3. OPERATING LEASE

The Consumer Counsel entered into a lease agreement for office space on December 1, 1997 and terminating on November 30, 2001. This lease was renewed on July 2, 2001 for a two year period beginning December 1, 2001 through November 30, 2003 and another two year period beginning December 1, 2003 through November 30, 2005. The lease agreement contains a renewal option for an additional two years beginning December 1, 2005 through November 30, 2007. Rent is currently \$1,264 per month and rent is increased annually on the anniversary date of the lease. The Office of the Consumer Counsel paid rent of \$14,746 and \$15,040 for fiscal year ended June 30, 2004 and 2005 respectively.

Future minimum lease payments for fiscal years subsequent to June 30, 2005 are: 2006, \$15,342, 2007, \$15,649, 2008, \$6,574.

4. BUDGET

The budget for each year included a contingency appropriation of \$250,000 for unanticipated cases.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Office of the Consumer Counsel for the fiscal years ended June 30, 2004 and 2005, and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of the Consumer Counsel's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Office of the Consumer Counsel's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Office of the Consumer Counsel in a separate letter dated September 28, 2005.

Report on internal control and compliance

Page 2 of 2

This report is intended for the information of management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
September 28, 2005

Montana Consumer Counsel



Robert A. Nelson

Consumer Counsel

Frank E. Buckley, *Rate Analyst*
Lawrence P. Nordell, *Economist*
Mary Wright, *Attorney*
Mandi Shulund, *Secretary*

Telephone: (406) 444-2771

Fax No: (406) 444-2760

616 Helena Avenue
Suite 300
PO Box 201703
Helena, Montana 59620-1703

October 26, 2005

Mr. Brian Wickens
Junkermier, Clark, Campanella, Stevens, P.C.
Certified Public Accountants
P.O. Box 1164
Helena, MT 59624

Dear Mr. Wickens,

We have reviewed your draft Financial Compliance Audit for the two fiscal years ended June 30, 2005, and have no comments or exceptions to your report.

I would like to take this opportunity to thank you for the efficient organization in conducting the audit; your advance instructions were very helpful and it was a pleasure working with you.

Sincerely,

A handwritten signature in cursive script that reads "Robert A. Nelson".

Robert A. Nelson
Montana Consumer Counsel



**Junkermier • Clark
Campanella • Stevens • P.C.**

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September 28, 2005

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Consumer Counsel for the years ended June 30, 2005, and 2004, and have issued our report thereon dated September 28, 2005. Professional standards require that we provide you with the following information related to our audits.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audits to obtain reasonable, but not absolute, assurance that the financial schedules are free of material misstatement and are fairly presented in accordance with the basis of funds according to State law. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audits, we considered the internal control of the Consumer Counsel. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Consumer Counsel's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Consumer Counsel are described in Note 1 to the financial schedules. No new accounting policies were adopted and the application of existing policies was not changed during the years ended June 30, 2005, and 2004. We noted no transactions entered into by Consumer Counsel during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial schedules prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial schedules and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial schedules.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial schedules that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Consumer Counsel's financial reporting process (that is, cause future financial statements to be materially misstated.) In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Consumer Counsel, either individually or in the aggregate, indicate matters that could have a significant effect on the Consumer Counsel's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial schedules or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audits.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial schedules or a determination of the type of auditor's opinion that may be expressed on those schedules, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Consumer Counsel's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The Legislative Audit Committee
of the Montana State Legislature
September 28, 2005
Page 3 of 3

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Legislature and management of the Consumer Counsel, and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana